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An Oncology Practice/ Hospital Merger

by David J. McCombs, M.H.A., and Joseph R. Halperin, M.D.

When a local medical oncology practice was approached by a for-profit physician management company, hospital executive staff at the Moses Cone Regional Cancer Center in Greensboro, N.C., took swift action. Their goal: revitalize the long-standing relationship between the physicians and the hospital to help ensure the long-term viability of their comprehensive community cancer program.

Many changes are occurring in the way hospitals and physicians collaborate. The driving force for such change is the integration of economic interests and services to make the most of shrinking provider payments. New partnerships span a wide spectrum of opportunities and assume different venues from loosely defined collaborations to hospital acquisition of physician practices. Further complicating these transitions are changes in reimbursement, hospital market share concerns, regional and national specialist alliances, for-profit company practice acquisition/management, primary care versus specialist tensions, and general physician uncertainty about the future.

Executive staff at the Moses Cone Health System in Greensboro, N.C., have recently completed a merger of a private medical oncology practice and hospital system. The integration has been successful because of several key factors:

- a mutual vision of a new health care delivery model
- an effective merger process
- creative negotiation around key issues
- a unique collaborative management structure
- a jointly developed physician incentive program.

Fundamental to success of this endeavor was not simply to enhance the economic position of either party. The goal was to create new value in cancer services for the community.

THE MERGER PROCESS

When hospital executive staff learned that a for-profit oncology management company had approached a local medical oncology practice, they immediately became concerned about the long-term viability of their comprehensive community cancer program. The medical oncology practice had always been devoted to providing state-of-the-art cancer care in the community in partnership with the hospital. Indeed, the physicians had helped build a regional cancer center concept. The relationship had been crafted on the basis of a mutual interest in serving cancer patients and their families in a high-quality manner within a fee-for-service system that provided mutual, but separate, financial benefits.

Yet even in this context of a basically positive relationship, some element of conflict had evolved. By the nature of their construct, both parties had some differing goals. Over time the dissimilarities had led to minor, mutual distrust: The physicians believed the hospital was not responsive to their needs, and the hospital administration believed the doctors lacked commitment to program development. Direct economic conflicts also existed with regard to delivery of technical services in the physicians' office versus in the hospital itself.

Both the medical oncologists and hospital administrators independently explored alternatives of integrated health care delivery models. The hospital pursued the development of a community-wide physician/hospital organization, which would include primary care physicians and specialists as network providers in single-signature, managed care contracts. Concerned with their relative position to primary care physicians in such a model, the medical oncologists pursued the creation of a statewide IPA with other oncologists. Since neither initiative was fully successful, both parties concluded that an alternative model should be explored. The aggressive interest of a national investor-owned physician management company in establishing a local and statewide presence accelerated the discussions.

A history of conflicting interests presented a barrier to initial discussions. The medical director helped overcome this barrier by mediating at independent meetings with the medical oncologists and administration. The focus of discussions shifted from areas of conflict to the mutually shared mission of making a

continued on page 36

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commitment to creating an enduring, compassionate, high-quality, integrated, cost-effective cancer care system accessible to all citizens in the community. The intent was to create a regional model of cancer care delivery and build a new freestanding cancer center facility.

Once the long-range mutual mission was agreed upon and full collegiality was established, a written agreement of understanding was crafted that outlined a process for future planning and negotiation. The planning/negotiating team included 1) from the practice, two medical oncologists and their business manager and 2) from the hospital, the medical director and the executive vice president. Also important to the process was a third-party consultant who assisted in assessing options for collaboration.

The first step in the planning process was to evaluate several collaboration scenarios using financial and statistical data submitted to the consultant from both parties. Considered scenarios included continuing a full, separate relationship, creating a joint-venture operation with practice management services provided to the physicians by the hospital, and using a full employment model. These scenarios were modified to reflect projected changes in the managed care environment and governmental reimbursement. The conclusion of all parties was that the full physician employment model produced the best financial and services alignment. This model would best position the merged program to make the difficult decisions necessary to achieve its long-term vision.

CREATIVE NEGOTIATION EFFORTS

Underlying the actual negotiation of the merger was the fact that the medical oncologists were seriously considering the investor-owned, national company's proposal. From the start it was clear that the hospital could not provide the same financial arrangements for the physicians as would result from an acquisition by an investor-owned, publicly traded company. Nevertheless, since both sides shared a mutual vision and commitment to the community, creative opportunities to craft additional benefits of a merger were sought in addition to direct payment. Careful attention was paid to strictly follow IRS and regulatory guidelines, and a mutually agreed-upon third-party practice valuation expert, plus diligent legal review, was used to ensure this objective was achieved.

Additional benefits that the merger would provide to the physicians included:

- a commitment by the hospital to provide resources to build a new freestanding cancer center
- availability of resources for cancer program development, including research, patient support systems, nursing (maintains important structure of each physician having a designated nurse/s) and ambulatory chemotherapy
- long-term employment contracts with stipulated renewal parameters
- support of system-wide continuing medical education
- vacation time
- fringe benefits such as insurance and retirement
- maintenance of competitive physician incomes based on an agreed-upon construct, including overall program success
- regional alliance building.

One pivotal principle to which both parties subscribed was to do whatever necessary to maintain the entrepreneurial and patient care success of the medical oncologists' private practice model. This meant taking the new entity out of the traditional cumbersome hospital management structure. To accomplish this task, a medical management board was established. The board, which would report directly to the hospital president, included the medical director as chairperson, two medical oncologists, the executive vice president, and the practice/ambulatory center director (ex officio), a newly created position. This board's responsibilities would include overseeing all financial matters, planning, and program elements that relate to the practice and the ambulatory center (including the chemotherapy suite).

To ensure integrated services, there are dotted-line relationships to the other cancer center structures with broad representation by medical management board members on all appropriate cancer center committees. The medical management board represents the physicians at regularly scheduled monthly meetings as well as on an as-needed basis.

PHYSICIAN INCENTIVE PROGRAM

In addition to salary, both parties agreed that an incentive compensation program would be appropriate. The formula takes into account the overall success of the program by tabulating the total number of new patients seen in the cancer program and the number of new patients seen annually by each physician. Satisfaction of patients and referring physicians—not the volume of procedures—is another important indicator of success that would be tabulated and used as a basis (although less heavily weighted) for incentive compensation. Patient satisfaction would be determined by a survey crafted by the medical management board. Another important incentive included physician service components, such as research, teaching, community oncology activities, and committee membership to be selected by each medical oncologist with input from the medical director.

Both parties agreed to fulfill the mission of serving a large arena of cancer patients by encouraging efforts to increase market share and serving the needs of the local community and region.

It has been a year since the separate entities were merged. All outpatient professional and technical services previously located in the hospital were physically consolidated at a site adjacent to the medical oncology practice. The integration has met both the hospital's and the physicians' goals. Projected financial and program goals have been exceeded, and patients have benefitted from a consolidated delivery site and new program elements, such as nutritional and pastoral counseling, pharmacist presence, social service support, and an expanded patient/family education program.

From an operational point of view, integration of a private practice and a hospital bureaucratic system has presented challenges. Nevertheless, we believe the process and structure of the merger has built a system of trust and mutually agreed-upon goals. The integration will continue to benefit the community as the team focuses all its energy and resources on bringing excellent cancer care to local citizens.